LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6924
BILL NUMBER: SB 166

NOTE PREPARED: Jan 24, 2003
BILL AMENDED: Jan 23, 2003

SUBJECT: Distribution of Local Option Income Taxes (LOIT).

FIRST AUTHOR: Sen. Kenley
FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: <u>**X**</u> **GENERAL**
DEDICATED
FEDERAL

IMPACT: State & Local

<u>**Summary of Legislation:**</u> (Amended) The bill changes the method for computing the amount distributed to counties from money received by the Department of State Revenue (the Department)from a County Adjusted Gross Income Tax (CAGIT), County Option Income Tax (COIT), or County Economic Development Income Tax (CEDIT). The bill repeals provisions concerning the keeping of three and six month balances in a county's tax account with the state. The bill repeals a provision requiring a report on account balances for the County Economic Development Income Tax in February of each year.

<u>**Effective Date:**</u> Upon passage.

<u>**Explanation of State Expenditures:**</u> (Revised) *Summary:* Under the bill, the Department would no longer hold three or six month balances on counties with a local option income tax (LOIT). Any impact to the Department would be administrative and could be absorbed in their current budget. The State Budget Agency would also have administrative time in order to implement the provisions of the bill.

<u>**Explanation of State Revenues:**</u>

<u>**Explanation of Local Expenditures:**</u>

<u>**Explanation of Local Revenues:**</u> (Revised) *Summary:* Under the bill, the Budget Agency would begin calculating LOIT recommendations using actual collections data from the Department of State Revenue instead of projections at 1%.

CY 2004 Certified Distributions: Under the bill, the Budget Agency and the Department would be required to calculate CY 2004 certified distributions at least at the amount of the CY 2003 certified distributions. Certified distributions of LOIT for CY 2005 would be based on revenue received from collections of LOIT between tax year 2003 (received in April 2004) to July 1, 2004.

Removal of Account Balances: The bill repeals three month and six month account balances. However, the Department would be able to correct for negative account balances. Distributions would be adjusted for counties with negative balances. Any adjustment could be spread over several years instead of a single year.

The Department could also correct distributions for clerical and mathematical errors made in a previous certification.

Uses: Any extra balance found to exist in a county's account in excess of the amount necessary, when added to other money that would be deposited in the account after the Budget Agency's recommendation date, would be placed in the county certified distribution in the ensuing year. The excess balances of LOIT revenue received by counties, as a result of this bill, would be distributed as other LOIT certifications are distributed under current law.

Current distributions of CAGIT are allocated to either Property Tax Replacement Credits (PTRC) or Certified Shares. Certified shares are used only by civil taxing units, in part for additional property tax relief and in part for general governmental purposes.

COIT revenue may be used for 1) increased homestead credit, 2) operation of public communications systems and computer facilities districts, 3) operation of public transportation corporations, 4) bonds for certain economic development projects, 5) redevelopment initiatives in Marion County, and 5) distributive shares to civil taxing units.

CEDIT distributions may be allocated as follows: 1) economic development projects and hazardous waste cleanup (in certain counties.) 2) When imposed in conjunction with either CAGIT or COIT, capital projects 3) additional homestead credits.

Background: Each year in July, the State Budget Agency calculates a certified distribution for CAGIT, COIT, and CEDIT for the following year. Under P.L. 178-2002, upon Budget Agency recommendation, the Department determines if an excess balance exists to either a CAGIT, COIT, or CEDIT county's three- or six-month certified distribution balance. If an excess balance exists, the Department must disburse a supplemental distribution in January of the ensuing calendar year.

As of FY 2002, 53 counties have adopted CAGIT with total CY 2003 certified distributions of $321,835,651; 27 counties have adopted COIT with total CY 2003 certified distributions of $462,833,380; and 60 counties have adopted CEDIT with total CY 2003 certified distributions of $146,937,065.

State Agencies Affected: Department of State Revenue, State Budget Agency.

Local Agencies Affected: Counties with a Local Option Income Tax.

Information Sources: Tom Conley, Department of State Revenue, State Budget Agency.

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